

Coal Severance and Processing Tax

Background The coal severance tax was enacted in 1972. The tax base was increased in 1978 to tax both the severance and processing of coal in Kentucky. Transportation expense is an allowable exclusion from the gross value. A deduction from gross value is also allowed for coal purchased for the purpose of processing if the coal was purchased from a taxpayer registered with the Commonwealth for coal tax purposes. The 1974 session of the General Assembly provided for a portion of the severance tax to be refunded to the counties in which the coal was severed. The Governor's Office for Local Development administers the local refund program.

During FY07, the coal tax produced \$222.0 million, which accounted for 2.6 percent of total General Fund receipts.

Current Rate Structure The severance and processing tax rate is 4.5 percent of gross value with a minimum tax of fifty cents per ton. The minimum tax does not apply in the case of taxpayers who only process coal. For coal used for burning solid waste the tax is limited to the lesser of 4 percent of the selling price or fifty cents per ton.

Tax Base The tax is levied on the gross value of the coal. Gross value is the amount received or receivable for the coal, or market value if the coal is consumed and not sold, less transportation expense.

In instances where coal is purchased for processing, the processor is taxed on the final sales price, or market value, in the case of consumption, reduced by the amount paid for the coal and transportation expense.

Tax Due The tax return and payment is due on the twentieth day of the month following the close of the taxable period.

Table 3. Total Coal Severance and Processing Tax Expenditures

FY 2008	FY 2009	FY 2010
\$24.3 million	\$24.7 million	\$24.8 million

Tax Expenditures

1. Coal Used to Burn Solid Waste

Kentucky Revised Statute 143.023, effective 1991

Tax is limited to fifty cents per ton or 4 percent of the selling price, whichever is less, on coal used for burning solid waste.

FY 2008	FY 2009	FY 2010
\$0	\$0	\$0

2. Thin Seam Tax Credit

Kentucky Revised Statute 143.021, effective 2000

A non-refundable tax credit is allowed for mining coal from thin seams or from areas with a high mining ratio. The credit is on a sliding scale from 2.25 percent to 3.75 percent of the value of the severed coal, based on the thickness of the seam, the ratio of overburden removed to coal severed, or the sulfur content of the coal.

FY 2008	FY 2009	FY 2010
\$600,000	\$600,000	\$600,000

3. Transportation Expense

Kentucky Revised Statute 143.010(6), and (11), effective 1978

Transportation expense incurred in transporting coal from the mine mouth or pit to a processing plant, tipple, loading dock, or customer is deductible in computing gross value.

FY 2008	FY 2009	FY 2010
\$23.7 million	\$24.1 million	\$24.2 million

4. Coal Purchased for Alternative Energy or Gasification Facility

Kentucky Revised Statute 154.270, effective January 1, 2008

An approved company that purchases or severs coal used by an alternative fuel facility or a gasification facility may be eligible for an incentive equal to eighty percent of the severance taxes paid on the purchase or severance of coal that is specifically used as feedstock for the facility.

FY 2008	FY 2009	FY 2010
\$0	\$0	\$0
